A SPECIAL REPORT

A New Direction

Getting to a Solution Today

Highest oil prices ever – and the state is still short $60 million!

The Spring revenue forecast released April 15th shows that through March 2004, Alaska received the highest average price per barrel ever for its oil—but the state is still short, even after $200 million in cuts for FY 2004!

FY 04 gap	$31.13/bbl	$60 million short
FY 05 gap[1]	$28.30/bbl	$381 million short
FY 06 gap[1]	$25.85/bbl	$570 million short

[1/]Assumes funding the additional $90 million for K-12, UA. These shortfalls otherwise assume flat spending which means future increased costs in formula-driven programs, labor contracts, and other increases due to inflation will have to be offset by spending reduction.

The state has been spending more than its income in 11 of the last 13 years. The state has been able to do this because of its constitutional budget reserve (CBR) account. More than $5 billion has been spent from the CBR to prop up state spending. In fact when we came into office in December 2002, the previous Administration left us with budget requests and estimated revenue shortfall of $800 million. The CBR now has less than $2 billion and is projected to fall to $1 billion in April 2007. Maintaining a minimum balance of $1 billion is necessary to protect state services against dramatic mid-year program reductions due to oil price fluctuations.

We have and will continue to cut spending just as we've done in the last 15 months. The Governor's proposed budget for FY 2005 is $245 million less than what was spent in FY 03. We've cut 441 jobs. We're examining everything the state does, how it does it, and if programs are delivering results. To ensure the state doesn't go on a spending spree, the Governor supports a *constitutional spending limit* to ensure any new revenues won't be used to grow government. Such a limit will allow for steady but limited change tied to the growth in the state's population and the rate of inflation.

The time to get Alaska's fiscal house in order is now, not when the state is in the middle of a fiscal crisis.

--Governor Frank H. Murkowski

Two primary solutions are under discussion:

1. Investment earnings from the Permanent Fund would bring new money from Wall Street into the state's economy.

2. Taxes would recycle money primarily from the wallets of hard-working Alaskans and give it to government to spend.

Let Alaskans decide which of the two options they want by placing on the ballot in November a measure that will protect the Permanent Fund, set a limit on how much of its earnings can be spent, and guarantee that those earnings will only be used to pay dividends and fund education.

There are enough Permanent Fund earnings to pay dividends AND help fill the shortfall as provided in House Joint Resolution 47:

- Protects Permanent Fund principal by clearly distinguishing between Fund's principal and earnings
- 5% limit on how much in earnings can be spent each year
- Earnings can only be spent to pay dividends and fund education

If in place for FY 2006:

- $578 million to pay **dividends**
- $578 million to help fund K-12 **education**

Permanent Fund Dividends by calendar year:

	Status Quo	Proposal	Difference
2004	$893	$1,146	+$253
2005	$788	$1,040	+$252
2006	$899	$1,050	+$151
2007	$1,203	$1,090	-$113
Total	***$3,783***	***$4,326***	***+$543***

Under the proposal, future dividends are projected to increase annually by $40 to $50. Increased deposits into the Permanent Fund from future oil and gas development will enable the fund to earn more, thereby increasing the dividends. However, under the status quo dividend calculation that assumes an annual 8% increase in earnings, dividends are projected to grow faster in later years than under this proposal.

The reason to take action this session is that Alaskans can only vote to amend the constitution in a general election. If this isn't on the ballot this year, it can't be done again until 2006. At that time the state will be facing a *$875 million shortfall for fiscal year 2007*. Taking action now to stabilize state services is the responsible thing to do. To wait and tie future stable state services to the price of oil is not.

Some say taxes are the answer

Here's an example of what would be needed:

5% sales tax	$350 million
Tourism tax	$49 million
Corporate Income Tax	$44 million
Employment tax	$43 million
Motor Fuel tax	$41 million
Tobacco tax	$36 million
Charitable gaming	$2 million
Total	$565 million

Anchorage voters said by a 2:1 margin said they want a solution.

A statewide poll said 93% of Alaskans want a solution.

Let your legislator know what you want

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